# 6 Common Estate Planning Mistakes (and How to Fix Them)

Estate planning allows you to protect and assist your loved ones upon your death. A proper plan can shield your assets against additional taxes, provide needed funds to loved ones, and ensure your wishes are carried out. Most importantly, it can bring both you and your loved ones peace of mind.

If others depend on you financially, or you simply have a strong desire to dictate what happens to your assets or possessions following your death, then you should get a plan in place right away.

A lack of a plan could leave your loved ones facing financial hardship. It could also cause strife among family members since your wishes would be unclear. Finally, it could mean your local probate court would decide how to distribute your assets. This process can take months or even years.

Estate planning can solve these issues. It includes many steps and legal documents. Since it's easy to miss a step or make an error, we've covered six common estate planning mistakes and how you can fix them.

## Mistake Number 1: Procrastinating

The process of estate planning can be confusing and time-consuming. Because of this, you may be tempted to put it off indefinitely. But this procrastination could cause unnecessary taxes, fees and stress to your loved ones should you die before a plan is put into place.

Here are some tips to make this process more manageable:

**Hire a financial planner or estate planning attorney:** A financial planner or estate attorney can assist you in making the best decisions. They can also do a lot of the paperwork for you. Knowing this, you may find yourself less likely to procrastinate with the guidance of a professional.

**Invest in an estate planning kit or guide:** Many reputable organizations, such as the AARP, offer kits or guides for purchase. These kits or guides can walk you through planning your estate.

(link: https://giftplanning.aarp.org/personal-estate-planning-kit)

**Take it one step at a time:** Estate planning is a process and involves many steps. Whether you hire a professional, use a purchased guide or lay out a plan of your own, there will be a lot of steps involved. These steps can take weeks or months to complete but the sooner you can get through them, the better.

# Mistake Number 2: Not Updating Your Plan

Once you have your plan in place, congrats!

Unfortunately, the work to protect your estate won't stop there. You will need to periodically update your plan as life events and changes occur.

Some of these changes include:

- The death of a loved one
- The addition of another child
- A marriage
- A divorce
- A move to another state

All of these life events, as well as many others, can influence the needs of your estate plans. Relocating to another state, for example, can void your current will since they're dictated by state laws.

Even if you don't experience any major life events, you'll want to update your plan if you change your mind.

# Mistake Number 3: Not Naming a Contingent Beneficiary

A beneficiary is the person you name to inherit your asset(s) when you pass away. There are two types of beneficiaries, primary and contingent. A primary beneficiary is the first to inherit. A contingent only inherits if the primary passes away before you do.

You may feel that it's not necessary to name a contingent if your primary beneficiary is younger and in good health, but this assumption is a common estate planning mistake.

Your primary beneficiary could pass away, followed by your own death, before you've updated your financial documents. Because of this, naming a contingent is essential.

Most financial institutions allow you to make these changes once you've logged into your account. If not, contact them directly.

# Mistake Number 4: Not Coordinating Beneficiaries

The beneficiaries named in your will should match the names on your beneficiary forms. This includes bank and retirement accounts, life insurance policies, and annuities.

A lack of coordination could mean your estate isn't divided the way you wanted. A common misunderstanding is that a will supersedes beneficiary forms with financial institutions when in fact, the opposite is true.

For example, if you put your sibling as the primary beneficiary in your will but designate your uncle as the primary beneficiary with your bank, your uncle will inherit the money in that account.

If you change the primary or contingent beneficiaries of your will, you will want to update your beneficiary forms accordingly and vice versa. This ensures your wishes are clearly understood.

As mentioned above, you can update beneficiary forms by contacting the financial institution or by logging into your account. For changes to your will, contact an estate attorney.

## Mistake Number 5: Not Considering Healthcare

When it comes to estate planning, most of us think in terms of our assets. But future healthcare needs should be included as well. You could one day lose control over your own medical decisions. On top of that, your healthcare expenses could cost a fortune.

When planning your estate, you might want to consider:

**Long-term care insurance:** This type of insurance can help cover the high costs of long-term care. A private room in a nursing home, for example, can cost more than $100,000 a year.

**Disability insurance:** This type of insurance can assist with costs should you become disabled. This may seem unlikely but about a quarter of all adults face some sort of disability of at least 90 days before turning 67.

(link: https://www.ssa.gov/policy/docs/statcomps/di_asr/index.html)

**A healthcare power of attorney or proxy:** Should you ever become incapacitated, you'll want someone you trust to make medical decisions on your behalf. A healthcare power of attorney (HCPA) or proxy allows you to choose who this would be should you ever need it.

## Mistake Number 6: Not Considering Taxes

Taxes can eat away at your estate.

While federal estate taxes only apply to large estates (2021 exemptions are $11.7 million per person or $23.5 million for married couples), this doesn't mean you shouldn't consider taxes. For starters, certain states levy estate or inheritance taxes.

(link: https://www.investopedia.com/articles/personal-finance/120715/estate-taxes-who-pays-what-and-how-much.asp)

You should also look at your current tax burden. If you can reduce your liability now, your heirs can inherit a greater amount in the future.

These three accounts can help you reduce taxes:

**Qualified retirement accounts:** Qualified means the money you put into the account can grow tax-free until withdrawal. SIMPLE IRAs and 401(k)s are two examples. Deferring taxes allows the money in these accounts to grow at a faster rate.

**Trusts**: For most individuals, a trust isn't needed. If you own a lot of assets, however, you could consider transferring some of these assets to a trust to reduce your current tax liability. You could also consider an irrevocable trust, which would diminish or eliminate the federal estate tax.

**Life insurance policies:** A life insurance policy can be used to diminish current and future taxes. A cash value life insurance policy, for example, contains investment components that grow tax-free.

Additionally, your heirs will likely inherit the death benefit tax-free. (In rare cases, a death benefit can trigger estate taxes.) This death benefit can provide much-needed funds to loved ones following your death. It can be used to cover everyday expenses, college tuition, and even your burial.

https://www.investopedia.com/articles/pf/06/transferlifeinsurance.asp

If you're thinking about getting life insurance, or adding additional coverage, Ethos makes life insurance easy. Our free online application process takes about 10 minutes, and medical exams aren't required for most. To get started with Ethos today, visit our site: https://www.ethoslife.com/